

“Tax Amnesty: Background and Policy Considerations”

Michigan State House of Representatives

Committee on Tax Policy

Wednesday, March 24, 2010

9:00 a.m.

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Sallie Mae’s Asset Performance Group



Good morning Chair Ebli, Vice-Chairs Melton and Calley, and members of the Committee, I am Scott Buchanan, Managing Director Government Relations at Sallie Mae. Joining me today is Jack Frazier, Vice President of Operations for Contingency Services in our Asset Performance Group, which includes our third-party collection agencies, Pioneer Credit Recovery and General Revenue Corporation. Thank you for the invitation to appear before you today to provide the Committee with background information about tax amnesty.

At the outset of our presentation, I want to make it very clear that we are not making a recommendation on whether the State of Michigan - or frankly any state - should or should not conduct a tax amnesty program. That is a policy decision for you as state lawmakers and the executive branch to decide. This morning, we are pleased to share information with the Committee based on the experience we have both observed and participated in with other states. Also given our past experiences, we will offer policy considerations and strategies that you may wish to weigh should Michigan decide to pursue a tax amnesty program.

Before I get into the details of structuring a successful tax amnesty program, I would like to first take a few minutes to give you some background on our company in order to provide the Committee with context for our discussion. Second, we will offer the Committee a high level overview of the recent history of tax amnesty programs across the nation. Third, we will describe our experience in helping Indiana, Oklahoma and Delaware achieve remarkable success in their recent tax amnesty programs. Finally, we will identify several policy issues for your consideration as you discuss a possible tax amnesty program in Michigan.



About Sallie Mae

SLM Corporation, commonly known as Sallie Mae[®], is well-recognized as the nation's leading provider of federal and private student loans and is engaged in funding, delivering and servicing support for education loans, primarily through its 40-year participation in the Federal Family Education Loan Program (FFELP). Sallie Mae provides a wide range of financial services, processing capabilities and information technology to meet the needs of governments, educational institutions, other financial companies, guarantee agencies, students and their families. From its beginnings as a government-sponsored entity in 1972 to its current status as a fully private, publicly-traded corporation, Sallie Mae has helped over 21 million Americans achieve their dreams of a higher education. Today, Sallie Mae owns or manages nearly \$192 billion in student loans, provides service to 10 million customers and administers more than \$21 billion in college savings accounts for one million customers through its Upromise subsidiary and employs approximately 8,500 individuals at offices nationwide.

While most people are familiar with Sallie Mae's leadership in helping families save, plan and pay for college, our company's role in helping federal, state and local governments, businesses, non-profit entities and postsecondary institutions manage their receivables is less well known. Indeed, Sallie Mae's Asset Performance Group (APG) is an industry leader in accounts receivable management and collections. Today, approximately one-third of all Sallie Mae employees work in APG and its subsidiaries which manage over \$63 billion dollars in delinquent and defaulted debt. These portfolios include government-related and consumer debt. APG also manages delinquent



student loans annually on behalf of the U.S. Department of Education and student loan guaranty agencies, including the Michigan Guaranty Agency.

Today, Sallie Mae companies provide collection services to the U.S. Department of the Treasury-Financial Management Service (non-tax) and the U.S. Department of Education (student loans). In addition, we recently completed our work on the Internal Revenue Service's debt collection initiative. We are also proud of present and past partnerships with states including Colorado, Delaware, Florida, Indiana, New Jersey, Ohio, Oklahoma, Oregon, Pennsylvania and Utah. Our experience includes administering or participating in tax amnesty programs in Delaware, Indiana, New Jersey and Oklahoma.

Our history as a government-sponsored enterprise and contractor for agencies provides us with a unique perspective on, and appreciation of, the special concerns of government entities. To that end, APG adheres to the highest-level of ethical standards, including full compliance with Sallie Mae's comprehensive Code of Business Conduct. Sallie Mae has been named three times as one of the 100 Best Corporate Citizens by *Business Ethics* magazine. The Better Business Bureau has recognized the ethical standards of APG's two collection entities as well. General Revenue Corporation and Pioneer Credit Recovery, Inc. are among a handful of collection agencies to receive regional Better Business Bureau Torch Awards for Marketplace Ethics. We are also keenly focused on helping find ways for states and localities to achieve their policy goals with efficient and effective use of taxpayer resources.



Background on Tax Amnesty Programs

Since 1983, 45 states and the District of Columbia have conducted over 85 tax amnesty programs with recoveries exceeding \$10 billion in revenue¹. States have typically turned to tax amnesty programs (also known as “taxpayer compliance initiatives”) as tools to generate additional revenue and reduce the balance of outstanding and unpaid state receivables.

In recent years, states have also used tax amnesties to help offset negative revenue cycles. For example, during 2002-03, 19 states conducted amnesties in response to drops in revenue following the “dot-com bubble” recession and the tragedy of September 11th. During 2008 and 2009 15 states conducted tax amnesty programs as part of their deficit mitigation strategy.

Given the unprecedented fiscal challenges facing governments today, a number of states have either approved tax amnesty programs or are actively considering tax amnesty programs for 2010. During last year, tax amnesty programs were conducted in 13 states – Alabama, Arizona, Connecticut, Delaware, Hawaii, Louisiana, Maine, Maryland, Massachusetts, New Jersey, Oregon, Vermont and Virginia. Nearly half of the amnesty programs in these states were “non-filer” programs, as opposed to the broader general tax amnesty program that is being considered in Michigan today. Under a non-filer program, only taxpayers who have not filed returns for taxes owed or been identified as delinquent by the State are eligible to participate in an amnesty program.

¹ Federation of Tax Administrators. State comparisons, tax amnesties. <http://www.taxadmin.org/FTA/rate/amnesty1.html>; Sallie Mae.

Not surprisingly, with 48 states facing shortfalls in their budgets for their FY2010 budget years², other states are, like Michigan, considering implementing tax amnesties as part of a multi-pronged approach to bridge budget deficits while continuing to provide vital government services. For example, Pennsylvania recently adopted a tax amnesty as part of their FY2010 budget and New York just concluded their tax amnesty program called PAID (Penalty and Interest Discount Program)

Tax Amnesty Strategies

Often by default, state revenue departments administer tax amnesty programs in conjunction and addition to their routine revenue collection activities. Given the existing significant responsibilities and limited resources of most state revenue agencies, this approach has met with varied success around the nation. Program offerings typically extend amnesty across a broad scope of tax liabilities and encourage participation by waiving some portion of, or all, penalties, interest and criminal prosecution. In most cases, state revenue departments employ an indirect approach when promoting a tax amnesty by alerting tax professionals to the upcoming amnesty period, engaging in earned and paid media campaigns and posting details of their programs on a state web site. The revenue department prepares and trains staff, makes necessary system adjustments and then waits for incoming calls to begin. In some cases, states will hire temporary employees to supplement existing staff resources.

² Center on Budget and Policy Priorities. "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery" by Elizabeth McNichol and Nicholas Johnson, February 24, 2010.

In 2005 and 2008, respectively, Indiana and Oklahoma experienced remarkable success in tax amnesties that generated revenue nearly four times original public estimates³. In 2009, the Delaware Division of Revenue experienced similar success on their tax amnesty program receiving Governor Jack Markell's Team Excellence Award top honors⁴. In these states, tax officials supplemented limited internal state resources with short-term public-private partnerships. This innovative approach allowed the state to focus operational strengths on areas of a tax amnesty best managed in-house while engaging a strategic partner to focus on areas that the state simply has insufficient resources to address quickly or cost-effectively, without detracting from its standing responsibilities.

For example, the ability of a private sector collection partner to leverage human and technology resources with no up-front cost to a state, enables state employees to continue to focus on routine revenue collection activities while the private sector partner focuses on the unique challenges of identifying, locating and contacting delinquent taxpayers to encourage them to take advantage of a limited amnesty time period. The result of this innovative approach is that a state can maximize the recovery of uncollected revenue over a shorter period of time than they could if they managed all aspects of a program without supplemental resources.

With that overview, I would like to ask my colleague, Jack Frazier, to briefly summarize the approach that Sallie Mae's Asset Performance Group takes to tax amnesty that resulted in unprecedented success in Indiana, Oklahoma and Delaware.





³ *Courier Journal*, "State's Tax Amnesty a Huge Success," Dec. 23, 2005; FY 2009 Executive Budget, Governor Brad Henry, Feb. 4, 2008 and *The Journal Record*, "Governor Henry Reveals Executive Budget," Feb. 5, 2008.

⁴ *Dover Post*, "Gov. Markell announces Team Excellence Awards," Dec. 30, 2009

Indiana Tax Amnesty

By any measure, Indiana's first-ever tax amnesty program, which ran from September 15 to November 15, 2005, was a resounding success. The Indiana tax amnesty program generated over \$255 million in recoveries for Indiana. Nearly 87 percent of these collections were received by the close of the tax amnesty period, with other payments forthcoming in approved installment agreements. This result was nearly four times greater than the Department of Revenue's publicly announced target of \$65 million. As you can see on slide six of the handout we have provided, of significant note, the majority of taxes collected during the Indiana tax amnesty came from out-of-state taxpayers. Without a partnership between the Department and a private entity that is experienced in reaching out across state lines, many states would find it more difficult to collect these revenues, which ended up bringing tens of millions in critical resources back into the state.

During the eight-week Indiana tax amnesty period, our partnership efforts with the State Department of Revenue resulted in discovery, resolution and collection services that totaled:

-  Over 1.2 million telephone attempts
 - 1 million outbound telephone calls
 - 240,000 inbound telephone calls
-  700,000 pieces of targeted mail
-  183 additional hours of available call center operating time
-  Over 68,000 people took advantage of the program

= \$255 million returned to Indiana taxpayers!

Oklahoma's "Clean Slate '08" Taxpayer Compliance Program

General Revenue Corporation (GRC), one of our third-party collection agencies, partnered with the Oklahoma Tax Commission to collect unpaid taxes for the State's "Clean Slate '08" program which ran from September 15 to November 14, 2008. The Oklahoma program collected more than five times the original public goal of \$21.8 million with collections totaling over \$115 million.

Prior to initiating work on the Oklahoma program, our employees received customized and targeted training to ensure successful results. During the eight-week Oklahoma "Clean Slate '08" program, employees provided discovery, resolution and collection services including:

- ☎ 744,000+ telephone attempts
 - 615,000 outbound telephone calls
 - 129,000 inbound telephone calls
- ✉ 330,000+ pieces of targeted mail
- 🕒 289 additional hours of available call center operating time

= \$115+ million returned to Oklahoma taxpayers!


Delaware Tax Amnesty

General Revenue Corporation (GRC), one of our third-party collection agencies is currently partnered with the Delaware Division of Revenue to provide tax amnesty administration and comprehensive collection services in support of their 2009 Tax Amnesty program. This highly-successful program ran from September 1 through October 30, 2009 and continues through June 30,




2010 for all accounts on payment plans. To date, GRC has collected over \$23.1 million in much needed revenue, more than doubling the project's public goal of \$10 million.

During the sixty-day Delaware tax amnesty period, our partnership efforts with the State Division of Revenue resulted in discovery, resolution and collection services that totaled:

 Over 170,000 telephone attempts

- 146,500 outbound telephone calls
- 26,000 inbound telephone calls

 79,500+ pieces of targeted mail

 192 additional hours of available call center operating time

= \$23.1+ million returned to Delaware taxpayers!

Customized Work Strategy to Maximize Dollars Returned to State Government

In any tax amnesty program, the central purpose of a contact campaign is to support and enhance the activities surrounding a state's tax amnesty program, including raising awareness of the program and increasing positive response and participation during a highly compressed time period. Our overall strategy is to promote the tax amnesty program, to increase contact with delinquent taxpayers and to maximize the recovery of owed tax debt. To achieve these goals, we perform intensive skip-tracing services in order to locate taxpayers for whom the state does not have up-to-date contact information, segment and prioritize accounts, send targeted mail that is reviewed and approved by the state, make outbound telephone calls consistent with agreed-upon scripts and handle inbound calls, process payments, conduct account resolutions and provide data cleansing.



The success of our public-private partnerships also depends on a well-trained workforce tailored to meet the specific requirements and objectives of the program based on feedback and direction from the state.

It is critical that a private sector partner be committed to maintaining awareness of government and industry regulations. To that end, we have established comprehensive privacy and safeguard policies and procedures for use with all of our public sector partners. Sallie Mae's Asset Performance Group has a proven record of protecting confidential information for all clients and is dedicated to the full satisfaction of a state's expectations for the protection of taxpayer data. For example, we perform random telephone monitoring during all shifts to ensure adherence to the highest performance and ethical standards. We have also developed and implemented a formal complaint process to ensure that taxpayers and the state have a formal process for resolving customer satisfaction issues.

Tax Amnesty Policy Considerations

As I noted at the outset of my presentation, the decision of whether to conduct a tax amnesty is reserved to Michigan's legislative and executive branch officials. As Michigan discusses whether or not to conduct a tax amnesty program, there are at least eight primary policy considerations our experience has suggested you should factor in when structuring a tax amnesty program.

- 1. Timing of a tax amnesty program.** At the outset a state must consider at what point during the calendar year is the optimal time to conduct a tax amnesty. Although states have managed tax amnesty programs throughout the calendar year, our experience in

Indiana and Oklahoma suggests that the optimal time to conduct a tax amnesty is in the Fall time frame. States have also experienced successful tax amnesties in the Spring following the traditional tax filing season. We recommend the Spring or Fall time periods because they are not during peak tax season and are at a time of year when taxpayers are likely to be less preoccupied with other activities such as summer vacation or holidays.

- 2. Duration of a tax amnesty program.** A successful tax amnesty program must be long enough to give taxpayers enough time to learn about the availability of tax amnesty but short enough to create a sense of urgency for eligible taxpayers. We recommend that the State consider a 60-day period for an amnesty program.
- 3. Eligible tax types.** Determining the types of taxes that are eligible for inclusion in a tax amnesty program is an important policy question. While we do not have a view on the specific types of taxes that should be included in a possible tax amnesty program in Michigan, part of the decision about which taxes to include revolves around the objective of the amnesty program. In our experience, taxpayers who are delinquent in one tax type can often be delinquent in multiple tax types. Accordingly, it is as easy to contact a non-compliant taxpayer about one tax type as it is to contact that same taxpayer about multiple tax types. If the goal of the amnesty is to maximize revenue recovered and resolve outstanding delinquencies that would argue for a broader tax amnesty. On the other hand, states have legitimate policy rationales for excluding certain tax types from tax amnesty programs.

- 4. Eligible tax periods.** Frequently, states, like Oklahoma, will limit participation in a tax amnesty program to those taxes that have become delinquent since the prior amnesty period. Since Indiana, had never conducted a tax amnesty, outstanding taxes from all prior years were eligible for amnesty. If the goal is to maximize revenue recovered, states frequently decide to include all taxes up until the end of the immediate prior calendar year in the amnesty program. We do not have a specific policy recommendation regarding the eligible tax period because we recognize that there are legitimate policy debates about whether a tax amnesty accelerates revenue that might otherwise be recovered.
- 5. Incentives to encourage taxpayer participation.** States offer varying incentives to taxpayers during an amnesty period but generally waive all penalties – both civil and criminal. The greatest variance comes in whether or not to waive some or all accrued interest. In our experience, we have found that greater incentives lead to greater participation. Nevertheless, incentives offered by a state to encourage taxpayer participation in an amnesty program can raise fairness issues in the eyes of some compliant taxpayers.
- 6. Post-amnesty compliance initiatives.** We understand that compliance is a primary concern when determining the appropriateness of a tax amnesty program. We have seen states employ a fairly aggressive strategy on the back end of an amnesty period in order to address this concern. Among the strategies states employ are: stepping up enforcement through increased audit and litigation activity, and/or an increased penalty

for taxpayers choosing not to participate. Similar to incentives, in our experience, we have found that aggressive post-amnesty compliance initiatives lead to greater participation in a tax amnesty program. Finally, if the State offers payment plans as part of the tax amnesty program, any such plans resulting from the amnesty will need to be monitored and maintained to ensure taxpayers honor their agreement with the State.

7. Media strategy. Traditionally, states use paid and/or free/earned media strategy to generate public awareness of a tax amnesty period. At a minimum, the State should work to maximize free media coverage of an amnesty program. If the State decides to invest in paid media to supplement other outreach efforts, we would recommend that the timing of paid media be closely coordinated with all other collection activities during the amnesty period.

8. Resource allocation. One of the critical challenges during a tax amnesty program is the allocation of resources. Absent sufficient resources, a tax amnesty program can divert a revenue agency's staff from core functions. For example, as you can see on slide seven in our handouts, a successful tax amnesty program is likely to generate more telephone contacts – both inbound and outbound – than some state Departments of Revenue – make in single calendar year. Likewise, every state Department of Revenue is undergoing continuous improvement in services and technology. A tax amnesty program should complement these efforts – not supplant or distract from them.

* * *

Conclusion

Thank you again, Chair Ebli and members of the Committee, for the opportunity to participate in this hearing and share some of our experiences and the policy considerations that should be part of any discussion regarding tax amnesty programs. We would be happy to take any questions that you may have.

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Tax Amnesty Background Documents

How States Traditionally Approach Tax Amnesties

Indirect Approach

- Alert tax professionals (CPA Societies, Bar Associations, Chambers of Commerce, etc.)
- Media campaign (TV, radio, print, billboards, etc.)
- Maintain regular business hours, 9:00 am – 5:00 pm Monday - Friday
- Publish program details on state website
- Alert and prepare staff for in-bound traffic (payments, disputes and clarifications)
- On occasion, incur additional cost to hire small team of temporary personnel

Tax Amnesty Comparisons

Recent tax amnesty activity from States that either projected or collected over \$40 million

State	Amnesty End Date	Public-Private Partnership	Goal	Collections
New York	3/15/2010	No	\$250m	\$50m (1)
Connecticut	12/31/2009	No	\$75m	No public data
Virginia	12/5/2009	Yes	\$48m	\$103m
Louisiana	10/31/2009	Yes	\$150m	\$466m
Connecticut	6/25/2009	No	\$40m	\$14m
New Jersey	6/15/2009	Yes	\$100m	\$725m
Oklahoma	11/14/2008	Yes	\$21.8m	\$115m
Iowa	10/31/2007	No	\$54m	\$28.2m
Indiana	11/15/2005	Yes	\$65m	\$255m

(1) CNYcentral.Com, State tax amnesty comes up way short, Tuesday, March 16, 2010
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APG Tax Amnesty Results

State of Indiana Tax Amnesty Program

- Indiana's goal was to recover \$65 million
- During a 60-day voluntary compliance period (Sept-Nov 2005), APG delivered customer service, discovery, resolution and collection services:
 - ☎ 1.2 million+ telephone attempts
 - 1 million outbound telephone calls
 - 240,000 inbound telephone calls
 - ✉ 700,000 pieces of targeted mail
 - ⌚ 183 additional hours of available call center operating time
 - ☑ Over 68,000 people took advantage of the program

= Over \$255 million returned to Indiana taxpayers!

"Tax amnesty program gets unexpected results"



-Thursday, December 22, 2005

APG

APG Tax Amnesty Results

Oklahoma Tax Commission “Clean Slate ‘08” Program

- Oklahoma’s original public goal was to recover \$21.8 million
- During an eight-week voluntary compliance period (Sept-Nov 2008), APG delivered customer service, discovery, resolution and collection services:
 - 📞 744,000+ telephone attempts
 - 615,000 outbound telephone calls
 - 129,000 inbound telephone calls
 - ✉️ 300,000+ pieces of targeted mail
 - 🕒 289 additional hours of available call center operating time

= Over \$115 million returned to Oklahoma taxpayers!

“Tax amnesty program savior for state programs”



December 9, 2008

APG

APG Tax Amnesty Results

Delaware Tax Amnesty

- Delaware's public goal was to recover \$10 million
- During a 60-day voluntary compliance period (Sept-Oct 2009), APG delivered customer service, discovery, resolution and collection services
- Program remains open to accounts on payment plans through June 30, 2010
 - ☎ Over 170,000 telephone attempts
 - 146,500 outbound telephone calls
 - 26,000 inbound telephone calls
 - ✉ 79,500+ pieces of targeted mail
 - 🕒 192 additional hours of available call center operating time

= **\$23.1+ million returned to Delaware taxpayers!**

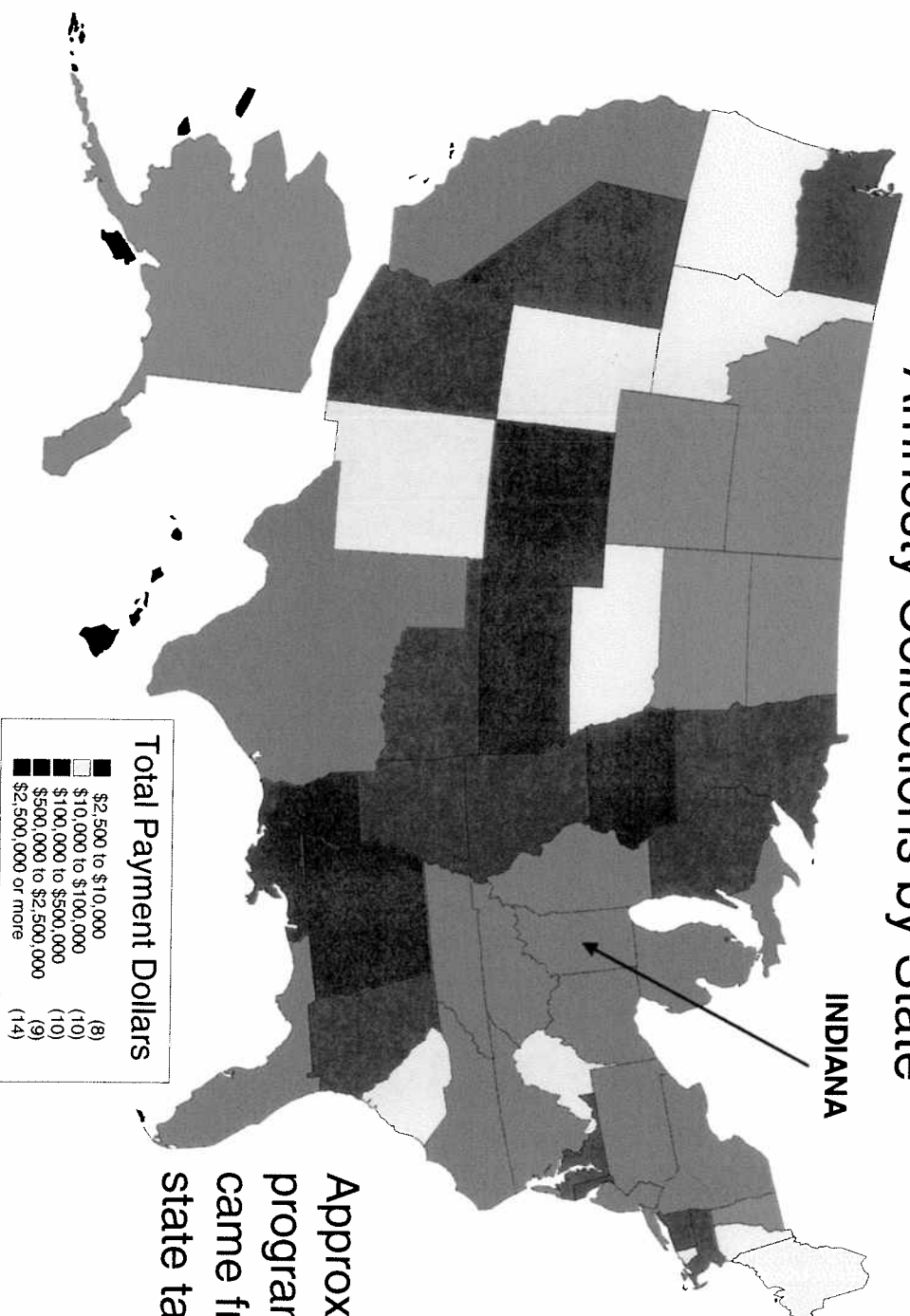


**“Tax amnesty pays off for state”
October 30, 2009**

APG

Indiana Tax Amnesty Revenue Distribution

Amnesty Collections by State

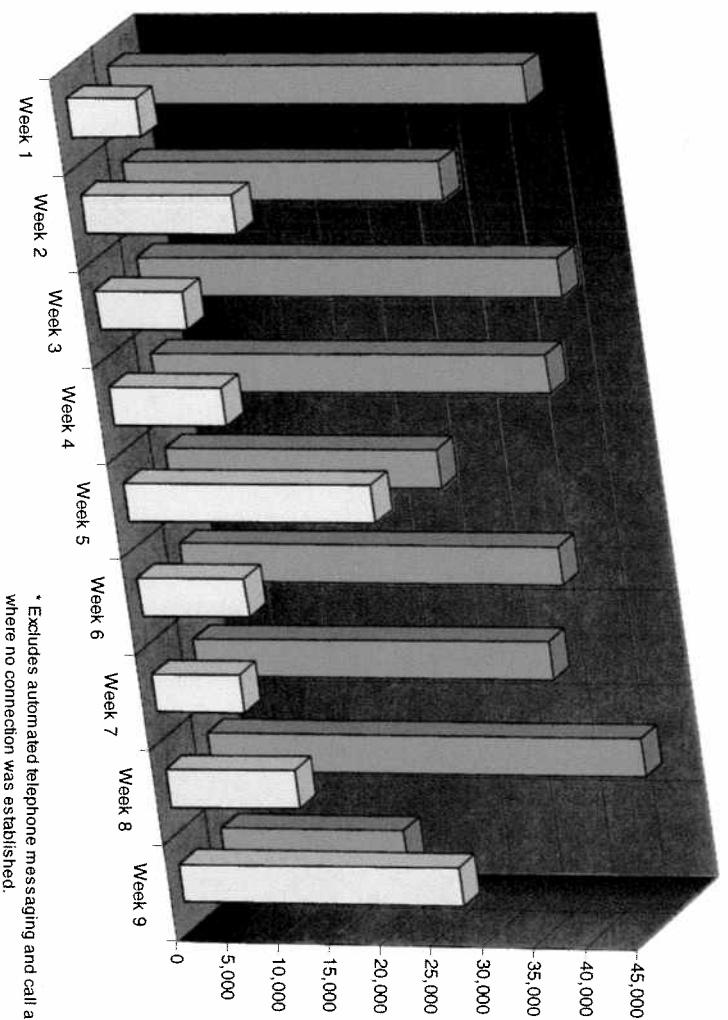


Approximately 50% of program revenues came from out-of-state taxpayers

Indiana Inbound & Outbound: Live Calls

Inbound and Outbound Live Calls

□ Inbound Calls ■ Outbound Calls



* Excludes automated telephone messaging and call attempts where no connection was established.